

**BEULAH PUBLIC LIBRARY**

*BENZIE COUNTY, MICHIGAN*

*AUDITED FINANCIAL STATEMENTS*

*FOR THE YEAR ENDED JUNE 30, 2004*

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Beulah Public Library</b>	County <b>Benzie</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>9/28/04</b>	Date Accountant Report Submitted to State: <b>12/15/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes or in the text of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input type="checkbox"/> No            | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>J L Stephan Co PC</b>			
Street Address <b>862 E 8th Street</b>	City <b>Traverse City</b>	State <b>MI</b>	ZIP <b>49686</b>
Accountant Signature <i>John P. Mow</i> CPA			Date <b>12-22-04</b>

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FINANCIAL SECTION



**J L Stephan Co PC**  
Certified Public Accountants

Jerry L. Stephan, CPA  
John P. Morse, CPA

Marty Szasz, CPA  
David Skibowski, Jr., CPA

**INDEPENDENT AUDITOR'S REPORT**

Beulah Public Library  
P.O. Box 469  
Beulah, MI 49617

We have audited the accompanying financial statements of the governmental activities of the Beulah Public Library as of and for the year ended June 30, 2004 as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with accounting standards generally accepted in the United States of America. These standards require that we plan and perform the audit to provide reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Beulah Public Library prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position – modified cash basis of the governmental activities of the Library as of June 30, 2004 and the respective changes in financial position – modified cash basis, thereof for the year then ended in conformity with the basis of account described in Note 1.

As described in Note 1, the Library has implemented a new financial reporting model, as required by provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages 1 through 3 and page 11 respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*J L Stephan Co PC*

September 23, 2004

**Beulah Public Library**  
*Governmental Funds Balance Sheet/Statement of Net Assets*  
*Modified Cash Basis*  
*June 30, 2004*

*Exhibit A*

	General Fund Modified Cash Basis	Adjustments	Statement of Net Assets
<b>Assets</b>			
Cash in Bank	\$ 26,717	\$ -	\$ 26,717
Certificates of Deposit	53,918	-	53,918
Receivables	-		-
General Fixed Assets	-	2,457	2,457
<i>Total Assets</i>	<u>\$ 80,635</u>	<u>\$ 2,457</u>	<u>\$ 83,092</u>
<b>Liabilities</b>			
Accounts Payable	\$ -	\$ -	\$ -
<i>Total Liabilities</i>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balance/Net Assets</b>			
Fund Balance - Undesignated	25,992	(25,992)	-
Fund Balance - Designated for Building	53,918	(53,918)	-
Fund Balance - Designated for Tribal Grant	725	(725)	
<i>Total Fund Equity</i>	<u>80,635</u>	<u>(80,635)</u>	<u>-</u>
<i>Total Liabilities and Fund Equity</i>	<u>\$ 80,635</u>		
<b>Net Assets</b>			
Invested in Capital Assets - Net of Debt		2,457	2,457
Unrestricted		25,992	25,992
Restricted		54,643	54,643
<i>Total Net Assets</i>		<u>\$ 2,457</u>	<u>\$ 83,092</u>

See Accompanying Notes to Financial Statements

**Beulah Public Library**  
*Statement of Governmental Fund Revenue, Expenditures,  
and Changes in Fund Balance/Statement of Activities*  
*Modified Cash Basis*  
For the Year Ended June 30, 2004

Exhibit B

	<i>General Fund Modified Cash Basis</i>	<i>Adjustments</i>	<i>Statement of Activities</i>
<i>Revenues</i>			
State Aid	\$ 651	\$ -	\$ 651
Local Units			
County Penal Fines	22,446	-	22,446
Village of Benzonia	6,000	-	6,000
Townships	4,500	-	4,500
Book Fines	1,069	-	1,069
Interest Earned	2,623	-	2,623
Contributions	580	-	580
Gifts & Memorials	1,000	-	1,000
Miscellaneous	-	-	-
<i>Total Revenue</i>	<u>38,869</u>	<u>-</u>	<u>38,869</u>
<i>Expenditures</i>			
Rent	6,000	-	6,000
Insurance	802	-	802
Books & Magazines	8,952	-	8,952
Dues & Miscellaneous	376	-	376
Salaries & Taxes	21,209	-	21,209
Phone	750	-	750
Supplies	1,206	-	1,206
Workshops & Travel	-	-	-
Heat & Maintenance	937	-	937
GT Band of Indians	1,612	-	1,612
Capital Outlay	-	-	-
Depreciation	-	2,457	2,457
Computer & Internet Charges	854	-	854
<i>Total Expenditures</i>	<u>42,698</u>	<u>2,457</u>	<u>45,155</u>
<i>Excess Revenues Over (Under) Expenditures</i>	(3,829)	(2,457)	(6,286)
Fund Balance - Beginning of Year	<u>84,464</u>	<u>4,914</u>	<u>89,378</u>
Fund Balance - End of Year	<u>\$ 80,635</u>	<u>\$ 2,457</u>	<u>\$ 83,092</u>

See Accompanying Notes to Financial Statements

**Beulah Public Library**  
*Notes to Financial Statements*  
*June 30, 2004*

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**Note 1 - Summary of Significant Accounting Policies**

The financial statements of Beulah Public Library have been prepared in conformity with the modified cash basis of accounting as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

Effective July 1, 2003, the Library adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in these statements include the following:

- Depreciation of capital assets owned by the Library.
- Financial statements using the modified cash basis of accounting for all the Library's activities as adjusted for capital assets and depreciation.

**A. Reporting Entity**

Beulah Public Library is a public library located in the Village of Beulah. Library operations are conducted in a building owned by the Village of Beulah. The State Library has determined that the Beulah Public Library serves 1/3 of Benzonia Township, 50% of Homestead Township, and 100% of Lake Township. The library is governed by a volunteer library board whose members are elected to three-year terms by the Library Board.

The criteria established by Statement 14 of the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements are based primarily on the concept of financial accountability.

The library operates as an autonomous agency completely separate from the Village of Beulah. On this basis, accordingly, the financial statements of the Library have not been included in the financial statements of any other organizations.

**B. Basic Financial Statements – Fund Financial Statements**

The fund financial statements report information on all of the nonfiduciary activities of the local unit. Each Fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures.

The local unit reports the following major governmental fund:

*General Fund* - This Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from penal fines, state distributions, and contributions from other local governmental units.

**C. Basis of Accounting**

The Library maintains its accounting records using the modified cash basis method of accounting. Accordingly, certain revenues are recorded when received and certain expenditures are recorded when paid.



**Beulah Public Library**  
*Notes to Financial Statements*  
June 30, 2004

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**Note 1 - Summary of Significant Accounting Policies - continued**

**D. Assets, Liabilities, and Net Assets or Equity**

The following is a summary of the local unit's assets, liabilities, and net assets or equity:

*Bank Deposits and Investments* - Cash and cash equivalents are considered to be cash on hand, demand deposits, time deposits and certificates of deposit.

*Capital/Fixed Assets* - Capital assets represent the fixed assets of the local unit utilized in its general operations (non-proprietary fixed assets). Fixed Assets are recorded at historical cost. Donated fixed assets are required to be valued at the fair market value as of the date received.

In accordance with GASB 34, depreciation has been provided on the fixed assets. Depreciation is computed over the estimated useful lives of the asset. Estimates useful lives are generally five years for furniture and equipment.

*Fund Equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Note 2 - Stewardship, Compliance and Accountability**

**A. Budgets**

The General Fund is under formal budgetary control. Budgets shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those amounts contained in the formal budget approved and amended by the library.

In the body of the combined financial statements, the library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a line-item basis. The budget resolution of the library did not specify the level adopted at, but is treated as being adopted at the line item level.

**B. Budget Compliance**

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall adopt an annual budget and not incur expenditures in excess of the amount appropriated. The library did not specify the expenditure level at which the budget was adopted. Accordingly, actual expenditures exceeded budgeted amounts for the following line items:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Insurance	\$ 600	\$ 802	\$ (202)
Dues & Miscellaneous	50	376	(326)
Salaries & Taxes	20,500	21,209	(709)
Phone	700	750	(50)
Supplies	750	1,206	(456)
Computer & Internet Charges	750	854	(104)

**Beulah Public Library**  
*Notes to Financial Statements*  
June 30, 2004

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**Note 2 – Stewardship, Compliance and Accountability**

C. Investment Policy

P.A. Act 196 of 1997 requires local units to adopt an investment policy and provide a copy of this policy to all financial institutions used by the unit. The Library Board has not adopted an investment policy.

**Note 3 - Deposits with Financial Institutions**

A. Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by act No. 217, Public Acts of 1982 and Public Act 196 of 1997, states the library, by resolution, may authorize the Treasurer to invest surplus funds as follows:

- a. In bonds and other direct obligations of the United State or an agency or instrumentality of the United States.
- b. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
- c. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase.
- d. In United States government or Federal agency obligation repurchase agreements.
- e. In banker's acceptances of United States banks.
- f. In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

B. Types of Deposits and Investments

The library maintains all its surplus funds with a local bank in the form of savings/checking accounts and certificates of deposit. Interpreting the FDIC insurance coverage of \$100,000 per deposit to apply to the total savings/time deposits separately from checking/demand deposits for purposes of applying the \$100,000 limit, the bank balances as of June 30, 2004 appear to be entirely FDIC insured.

**Beulah Public Library**  
*Notes to Financial Statements*  
June 30, 2004

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**Note 4 - Changes in General Fixed Assets**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Equipment	<u>\$ 22,372</u>	<u>\$ -</u>	<u>\$ (1,000)</u>	<u>\$ 21,372</u>
Accumulated Depreciation	<u>(17,458)</u>	<u>( 2,457)</u>	<u>1,000</u>	<u>(18,915)</u>
Total	<u>\$ 4,914</u>	<u>\$ (2,457)</u>	<u>\$ -</u>	<u>\$ 2,457</u>

**Note 5 - Lease Arrangement and Reimbursements**

The library operates out of facilities owned by the Village of Beulah. The Library board pays annual rent to the Village of Beulah. The current annual cost is \$6,000.

**Note 6- Risk Management**

The Library pays an annual premium to Municipal Underwriters of Michigan for their portion of the Village's policy for property damage and liability coverage. The Library also carries worker's compensation insurance through Michigan Millers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SUPPLEMENTAL DATA SECTION

**Beulah Public Library**  
*Budgetary Comparison Schedule*  
*General Fund*  
*Year Ended June 30, 2004*

	<i>Original Budget</i>	<i>Amended Budget</i>	<i>Actual</i>	<i>Variance w/Amended Budget</i>
Beginning Fund Balance	\$ 8,287	\$ 7,342	\$ 84,464	\$ 77,122
Revenues				
State Aid	100	100	651	551
Local Units				
County Penal Fines	20,000	22,445	22,446	1
Village of Beulah	6,000	6,000	6,000	-
Townships	-	-	4,500	4,500
Book Fines	700	700	1,069	369
Interest Earned	1,500	1,500	2,623	1,123
Contributions	5,000	5,000	580	(4,420)
Gifts & Memorials	100	100	1,000	900
Miscellaneous	-	-	-	-
Total Revenues	<u>33,400</u>	<u>35,845</u>	<u>38,869</u>	<u>3,024</u>
Amount available	41,687	43,187	123,333	83,170
Expenditures				
Rent	6,000	6,000	6,000	-
Insurance	600	600	802	(202)
Books & Magazines	10,000	9,000	8,952	48
Dues & Miscellaneous	50	50	376	(326)
Salaries & Taxes	19,000	20,500	21,209	(709)
Phone	700	700	750	(50)
Supplies	750	750	1,206	(456)
Workshops & Travel	-	-	-	-
Heat & Maintenance	1,500	1,500	937	563
GT Band of Indians	2,337	2,337	1,612	725
Capital Outlay	-	-	-	-
Computer & Internet Charges	<u>750</u>	<u>750</u>	<u>854</u>	<u>(104)</u>
Total Expenditures	<u>41,687</u>	<u>42,187</u>	<u>42,698</u>	<u>(511)</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ 80,635</u>	<u>\$ 79,635</u>

See Accompanying Notes to Financial Statements

OTHER INFORMATION (unaudited)

# Beulah Public Library

## Comments and Recommendations

We have audited the financial statements of the Beulah Public Library for the year ended June 30, 2004 and issued our report thereon dated September 28, 2004. As part of our audit, we studied and evaluated the library's internal control structure. Because the study and evaluation were only part of the overall audit plan regarding the financial statements, our study was more limited than would be necessary to express an opinion on the system of internal control taken as a whole. Accordingly, we do not express an opinion on the system of internal control of the library taken as a whole. As the result of our audit, we deem it necessary to make the following comments and recommendations.

### Opening Comments

The financial records of the Library are maintained in good condition by your Librarian. As part of a continuing effort to enhance internal control and improve the accounting system, financial reporting, and overall management, we offer the following comments and recommendations for your consideration.

### Reportable Conditions

We noted certain matters involving the internal control structure and its operation that we consider being reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the library's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

### Segregation of Duties

The Librarian is currently responsible for approving bills, writing and mailing checks, maintaining the accounting journals and ledgers, reconciling the bank accounts, and preparing monthly and annual operating reports. This lack of segregation of duties increases the potential for undetected errors or irregularities.

We understand small organizations have limited resources, but the board should consider that an optimal system of internal control attempts to segregate the financial functions and responsibilities to the extent possible. This is similar to the way in which most small Townships and Villages operate. We recognize that your Board and Treasurer are all volunteers but we recommend they share more of the responsibility to manage the library finances and maintain the accounting system as they have in past years.

### Financial Reports

We noted that some of the Librarian's financial reports do not match the income and expense items on the Library quicken program. We recommend that all revenue and expenditures be reviewed to ensure the quicken amounts equal the monthly and annual financial reports.

It appears that the bank accounts are reconciled monthly, however we noted that no formal written bank reconciliation is being printed out and saved. The Librarian should print out this report monthly along with receipt and disbursement summaries to enhance the audit trail.

We also recommend that duplicate receipts & bank deposit tickets be prepared and retained to provide proper documentation for all monies received.

**Beulah Public Library**  
*Comments and Recommendations*

We also noted other matters, which we do not consider to be reportable conditions that we wish to bring to your attention.

Bill Approval

The Library Board now authorizes the Librarian to pay all routine bills without prior board approval. We understand the librarian present a detailed list of bills paid including check number and amount at the monthly board meetings. The Board should approve the list of bills and the board minutes should reflect approval of bills and the total amount approved.

Budgeting Procedures

Board minutes reflect approval of the annual budget. We recommend that the resolution adopting the budget indicate the level at which the budget is adopted. The board minutes should also reference the total budgeted revenues and expenditures.

Budget amendments were made but the details were not clearly stated in the minutes. Each amendment should clearly state that it is a budget amendment and indicate the accounts increased and decreased. In addition, we noted several line items in the year-end Treasurer's financial report, which were over budget. This should be watched in the future.

Building CD's

During the audit year, it appears a \$26,994 CD restricted for building acquisition was transferred to the unrestricted savings account without Board approval. We recommend the board pass a resolution ASAP to transfer this amount back to a building fund CD or money market account. The Librarian or Treasurer should not transfer monies in restricted accounts without Board approval.

Investment Policy

P.A. Act 196 of 1997 requires local units to adopt an investment policy and provide a copy of this policy to all financial institutions used by the unit. The Library Board has not adopted an investment policy.

Other Matters

The general fixed asset inventory of the Library has not been updated since 1988. We recommend that the inventory listing be updated every two to three years. The listing need only include equipment and furniture and other large assets of the Library. Most units set a capitalization policy where they only include items over a set dollar amount, such as \$500 or \$1,000. Any item under that amount is expensed as a supply when purchased.

Closing Comments

We will be happy to discuss any of these recommendations with you and assist you in their implementation. As a matter of course, we will forward the required copies of these financial statements to the Michigan Department of Treasury. We further appreciate the courtesy extended our field auditors in the conduct of this audit engagement. Should any questions arise on these statements or the conduct of our audit, please call upon us.